

STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

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CHAIRMAN 2006  
MARSHA ARZBERGER  
TIMOTHY S. BEE  
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HOUSE OF  
REPRESENTATIVES

RUSSELL K. PEARCE  
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LINDA J. LOPEZ  
STEPHEN TULLY

### JOINT LEGISLATIVE BUDGET COMMITTEE

Wednesday, September 28, 2005

9:30 a.m.

House Hearing Room 4

### MEETING NOTICE

- Call to Order
- [Approval of Minutes of September 1, 2005.](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
- 1. ARIZONA BOARD OF REGENTS
  - A. [Review of Operational and Capital Plans for the Phoenix Medical Campus.](#)
  - B. [Review of FY 2006 Tuition Revenues.](#)
- 2. DEPARTMENT OF ECONOMIC SECURITY - [Review of Arizona Specific Child Protective Services Caseloads.](#)
- 3. JLBC STAFF - [Consider Approval of Index for Construction Costs.](#)
- 4. ARIZONA DEPARTMENT OF ADMINISTRATION
  - A. [Consider Approval of Mileage Reimbursement for State Travel by Motor Vehicles & Report on Tiered Rate Mileage Reimbursement System.](#)
  - B. [Review of Risk Management Deductible.](#)

The Chairman reserves the right to set the order of the agenda.

09/19/05

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**MINUTES OF THE MEETING**

**JOINT LEGISLATIVE BUDGET COMMITTEE**

September 1, 2005

The Chairman called the meeting to order at 9:40 a.m., Thursday, September 1, 2005, in House Hearing Room 4. The following were present:

|          |                                 |                              |
|----------|---------------------------------|------------------------------|
| Members: | Representative Pearce, Chairman | Senator Burns, Vice-Chairman |
|          | Representative Biggs            | Senator Bee                  |
|          | Representative Boone            | Senator Garcia               |
|          | Representative Burton Cahill    | Senator Harper               |
|          | Representative Gorman           | Senator Martin               |
|          | Representative Huffman          | Senator Waring               |
|          | Representative Lopez            |                              |
|          | Representative Tully            |                              |

Absent:

|                   |
|-------------------|
| Senator Arzberger |
| Senator Cannell   |

**APPROVAL OF MINUTES**

Representative Pearce moved that the Committee approve the minutes of July 21, 2005 as amended. The motion carried.

**EXECUTIVE SESSION**

Senator Burns moved that the Committee go into Executive Session. The motion carried.

At 9:43 a.m., the Joint Legislative Budget Committee went into Executive Session to discuss the Arizona Department of Administration Risk Management Services Proposed Settlement under Rule 14 and the FY 2006 State Retiree Health Insurance Contribution Strategy.

Senator Burns moved that the Committee reconvene into open session. The motion carried.

At 11:35 a.m. the Committee reconvened into open session.

Representative Pearce said the Committee would not make a motion on the Risk Management Proposed Settlement under Rule 14 until more information could be provided.

Senator Burns moved that the Committee, relative to Item B of Executive Session, approve the JLBC Staff recommendation that ADOA report back to the Committee possible ways to help retirees understand the difference between the ADOA and ASRS systems prior to the close of open enrollment. The motion carried.

### **AHCCCS - Review of Capitation Rate Change.**

Mr. Stefan Shepherd, JLBC Staff, said this item is a review of a capitation rate change. Most of the increase is related to cost increases in utilization, pharmacy, physicians and in-patient health benefits. The remainder is primarily adjustments for administrative and outpatient/emergency room increases. In total, the changes are estimated to create a shortfall of approximately \$14 million General Fund and \$14 million County Match in the FY 2006 AHCCCS budget, although that could change depending on actual caseloads levels. In addition to the options provided to the Committee by JLBC Staff on the capitation rate, they also recommend that the Committee ask AHCCCS for a response on their plans for using contractors' prior performance in evaluating their responses for a Request for Proposals that AHCCCS will issue for on the ALTCS plan.

*Senator Burns moved that the Committee give a favorable review to the AHCCCS capitation and fee-for-service inflationary rate changes with the stipulation that the favorable review does not constitute an endorsement of a supplemental request, and that AHCCCS provide a response on their plans for using contractors prior performance in evaluating their responses for a Request for Proposals that AHCCCS submitted for the ALTCS plan. The motion carried.*

### **DEPARTMENT OF ECONOMIC SECURITY (DES) – Review of Proposed Implementation of Developmental Disabilities Provider Rate Increase.**

Mr. Russell Frandsen, JLBC Staff, said currently in FY 2005 the rates are at 95.75% of the FY 2005 benchmark. The department received \$6 million to raise those rates to 97.61% of the FY 2005 benchmark. When adjusting the FY 2005 benchmark for inflation by 3.2%, as recommended by the federal Home Health Agency Market Basket, the real rate in FY 2006 will be 94.58%. Also, the department will not be able to meet its September 15 deadline for reimbursement but plans to have it done by November 15.

*Senator Burns moved that the Committee give a favorable review to the DES implementation plan for the Developmental Disabilities Provider rate increase. The motion carried.*

### **DEPARTMENT OF PUBLIC SAFETY (DPS) – Quarterly Review of the Arizona Public Safety Communications Advisory Commission (PSCC).**

Mr. Martin Lorenzo, JLBC Staff, said in FY 2005 the PSCC hired 5 of 9 positions and expended approximately \$520,000 of their \$5 million appropriation. Of this amount, approximately \$161,000 was expended in the fourth quarter. Regarding the positions, PSCC has only filled 5 of 9 positions. Currently, they are in the process of drafting the job description for the technical writer position as well as advertising the 3 available telecommunication engineer positions nationwide. The PSCC has indicated they have conducted interviews for the 3 telecommunication engineer positions but have been unsuccessful in finding qualified candidates due to the department's salary levels. The PSCC original expenditure plan assumed higher salary levels for the 3 engineer positions than the DPS classification/compensation schedule allows.

The PSCC provided an updated timeline with specific goals and objectives for completion during FY 2006. Based on the revised timeline, the PSCC will begin to identify potential technical solutions for interoperability in mid FY 2006 (originally scheduled for early FY 2007), leading to the implementation of a pilot project in FY 2008 (previously not included in timeline). The PSCC anticipates fostering a full deployment plan in the beginning of FY 2009, consistent with the estimated completion date in the original timeline. Previously not indicated in the original timeline, the PSCC's estimates statewide interoperability will be achieved at the beginning of FY 2014.

The JLBC Staff recommends that in the next quarterly report DPS include progress relative to the updated timeline, as well as the extent of the PSCC involvement with the DEMA "short-term" interoperability solution and how the "short-term" solution will integrate with PSCC's solution.

Senator Waring questioned the lapsing of the \$2 million of their appropriation.

Representative Pearce said they essentially got more money than they needed. It was an estimate when it was given to them.

Mr. Curt Knight, Department of Public Safety, said there was a delay in startup in hiring staff and setting up the office. The actual operation of the office did not begin until mid to late October 2004.

Representative Pearce said he knows this is a huge undertaking in terms of the direction of this project. He asked when there would be a comprehensive timeline available for the Committee regarding what the long-term liability is on this issue and how we can go forward on it.

Mr. Knight said that they anticipate in FY 2008 or FY 2009 actually publishing the long-term deployment plan. They will have selected a solution(s), piloted it and proved it useful.

Senator Waring asked if they are caught up since they got a late start. Also, regarding the \$300 million figure, if the project is not going to be done until 2014 how do they project something like that with technology changing so fast.

Mr. Knight said that at this point they are probably behind the power curve. They have not hired all the staff they hope to, especially the technical staff. He said the \$300 million figure came from a study that was completed in July 2004. Consultants said the estimate of \$300 million would provide an integrated system across all public safety in Arizona to provide significant improvements to the radio interoperability.

Representative Pearce said that since the \$300 million is a 2004 figure, will PSCC report back with what the basic system is and what the one with all the bells and whistles is so the Committee can decide what is needed in order to move forward.

Mr. Knight said that they would return to the Committee with that information.

Representative Huffman asked about the lag of 5 years in the DPS timeline.

Mr. Knight said that the start of the 5-year lag is at the end of the identifying phase and piloting the solution(s). The detailed design is ready to go to bid at that time. They also put a high priority on having a microwave solution in place as part of the solution to go forward.

In response to Representative Huffman, Mr. Knight said that they are staying on top of changes in bandwidths (700 MHz). They are also monitoring the rebanding of the 800 MHz that comes forth from a federal initiative based on the cell phone interference.

*Senator Burns moved that the Committee request that the next quarterly report include an explanation regarding accomplishments that directly relate to the updated timeline. In addition, the report should include information regarding the extent of the PSCC's involvement with the Department of Emergency and Military Affairs (DEMA) "short-term" interoperability solution and an explanation of how DEMA's "short-term" solution is anticipated to integrate with the PSCC's "permanent" interoperability solution. The motion carried*

#### **ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) – Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan.**

Mr. Tyler Palmer, JLBC Staff, said this item is a review of the wireless expenditure plan from the Emergency Telecommunication Services Revolving Fund. In distributing these monies ADOA provides an oversight and management role. The FY 2006 emergency plan has a \$13.4 million wireless portion budgeted. Of that, approximately half is for ongoing costs and the other half is for one-time charges. By October 2005 Maricopa County will finish their Phase II deployment and will join Pima County as the only other county in the state with Phase II deployment. With the completion of Pima County and Maricopa Region, 80% of the access lines in Arizona will be Phase II compliant. At the end of FY 2008 ADOA projects a deficit of about \$9 million in this revolving fund. This will grow to approximately \$25.8 million by the end of FY 2010.

Another issue that needs to be resolved is a disagreement on how the statute should be interpreted between the Department of Revenue (DOR) and ADOA. DOR maintains that internet phones should be taxed and currently are taxed. ADOA says they are not taxed.

Senator Burns asked why the cost estimate increased significantly since the last report.

Ms. Barbara Jaeger, 911 Administrator, said actually the cost for deployment for Phase II has reduced. They had a \$17 million negotiation with several carriers. At this point in time they have only paid out 1 carrier Phase II one-time cost, both in Pima and Maricopa County, which leaves 7 additional carriers that they have to pay out this next fiscal year. At this point, they have no history of recurring charges from the carriers.

Mr. Richard Stavneak, Director, JLBC Staff, referred members to a chart (Attachment A) that shows total expenditures in this fund compared to last year. When you look at the long-run costs they are about \$8 million to \$10 million higher than they were last year.

Ms. Jaeger said that those costs were not paid out in the last fiscal year so they rolled over to the next fiscal year to pay out.

Mr. Stavneak said that the chart shows that through FY 2010 they were previously projecting expenditures in the \$20 million range and now those expenditures, in terms of the current estimate, are as high as \$41 million.

Senator Burns asked how Arizona compares with other states and where does Arizona fit in with deployment around the country.

Ms. Jaeger said they are making significant progress on their tax. They provided to the Committee an overview of what the taxes are nationwide. Most of the taxes are increasing, however, our tax is very low. With regards to deployment, after October they will have 80% deployed, which is extremely high. Some states have only deployed Phase I. They are planning, in the next fiscal year, deploying Phase II in the northern part of Yavapai County.

In response to Senator Martin, Ms. Jaeger said the tax does not expire, it goes down to a minimum of 20¢ in FY 2008. She also stated that in FY 2003 \$12 million was transferred out of the Emergency Telecommunications Revolving Fund into the General Fund and an additional \$3 million in FY 2004.

Senator Burns moved that the Committee give a favorable review to the \$13.4 million wireless portion of the Emergency Telecommunication Services Revolving Fund expenditure plan, with the provision that ADOA report back to the Committee by April 1, 2006 concerning the following:

- The basis for long-term revenues and expenditures
- The estimated costs to implement Phase I and Phase II
- The historical cost to support ongoing services for each of the following: basic 911, enhanced 911 with automatic number identification (ANI), enhanced 911 with automatic location identification (ALI), wireless Phase I, and wireless Phase II
- The current annual operating costs and the annual operating costs assuming full deployment

The motion carried.

#### **ATTORNEY GENERAL – Review of Uncollectible Debts.**

Ms. Leah Ruggieri, JLBC Staff, said this item is a request by the Attorney General for Committee review of its FY 2004 listing of \$10.7 million in uncollectible debts referred to the Attorney General by state agencies. A favorable review by the Committee will allow the State Comptroller to remove debt, certified by the Attorney General as uncollectible, from the state accounting system. Approximately 81% are debts that were owed to 4 agencies, the Registrar of Contractors (ROC), the Arizona Department of Revenue, the Industrial Commission, and the Motor Vehicle Division. The remaining 19% are debts owed to 34 other agencies.

Senator Garcia asked why the uncollectible debt is so large for the Registrar of Contractor.

Mr. Stavneak said there are a lot of contractors that owe fines to the ROC and they then choose to go bankrupt rather than pay the fines or other fees, and those are what are appearing on the report.

Mr. Mike Kempner, Section Chief Counsel, Attorney General's Office, said at this time he did not know why there was such debt for the ROC.

Senator Burns asked if the Attorney General's Office uses any private contractors for debt collection.

Mr. Kempner said they do not generally use them for collections in Arizona. However, they do hire them for out-of-state collections. He said they have enough people to handle the debtors in Arizona.

Representative Pearce asked what the Attorney General's Office does to make sure that these debtors are not still living in a million dollar house, and if they do have any assets, what is being done to collect from them.

Mr. Kempner said that they have units that do nothing but try to collect debts. In the Bankruptcy Division they currently have 3 attorneys and are going to hire 1 more, plus the secretarial staff and 1 paralegal. In the State Court Collections Unit they have 4 full-time attorneys that do nothing but work on debt collection. These cases are open anywhere from between 2 years and 9 years before they are closed out. He said they file liens, and the debts that are being written off must be satisfied first.

Senator Burns asked if they have a method for tracking the cost of these collections and average cost to collect debt since it requires so many resources.

Mr. Kempner said that in FY 2004 the collection rate was 26.2%.

Representative Pearce asked what that meant in actual expenses.

Mr. Kempner said that he did not have that information but could provide it to the Committee. He said it would probably be calculated on the basis of the salaries of personnel, which would be the biggest cost. Most of the out-of-pocket expenses are for people who go out of state.

*Senator Burns moved that the Committee give a favorable review, as recommended by JLBC Staff, to the Attorney General's FY 2004 listing of \$10.7 million in uncollectible debts. The motion carried.*

#### **ARIZONA COMMISSION ON THE ARTS – Review of the Arizona Arts Endowment fund and Private Contribution.**

Ms. Leatta McLaughlin, JLBC Staff, said each year the Committee reviews what the Commission receives in private monies that are donated for use in conjunction with public monies. In CY 2004 the Commission received \$5 million in private donations. This was a \$3 million increase from the previous calendar year. This increase is due to an improving economy and better communication with arts organizations.

Representative Pearce said that the commitment from the General Fund is \$20 million with the Commission becoming self-sustaining after 2009, under present statute. He said he does not like to see long-term commitments against the General Fund that is unpredictable from year to year. He felt like it would be beneficial to just go ahead and make the full payment now, which would be \$6 million.

Senator Harper said that he agrees with the principle of any budget surplus from the last budget, be spent primarily on one-time items so that the spenders do not try to put it in the base from year to year.

Senator Burns asked how the Commission is going to make up the difference once they stop receiving money from the General Fund.

Ms. Shelley Cohn, Executive Director, Arizona Commission on the Arts, said that it was her understanding that it was contributions to the Arts Endowment. She hoped they would continue to support the range of financial support for the Arts. She said that there has been a great effort on behalf of the Commission and the Arts community to look to long-

term funding and building endowments over time. That is a product of the maturity and growth of the Arts community. As they are managing their own annual operating budgets they are looking towards the future.

Senator Waring noted that contributions have been up and down, and asked why there are such extremes.

Ms. Cohn said that in the context of endowment giving, it is not something that people give to each year. They give to the annual funds on a regular basis but endowment giving is not on an annual basis.

*Senator Burns moved that the Committee give a favorable review, as recommended by JLBC Staff, of the Arizona Arts Endowment Fund and Private Contributions report.* The motion carried.

Chairman Pearce adjourned the meeting at 12:15 p.m.

Respectfully submitted:

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Cheryl Kestner, Secretary

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Richard Stavneak, Director

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Representative Russell Pearce, Chairman

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DATE: September 21, 2005

TO: Representative Russell Pearce, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Arizona Board of Regents – Review of Operational and Capital Plans for the Phoenix Medical Campus

**Summary**

The FY 2006 Higher Education Budget Reconciliation Bill (Laws 2005, Chapter 330) directs the University of Arizona (UA), based in Tucson, to establish a medical campus of its Health Sciences Center (AHSC) at the former site of Phoenix Union High School (PUHS). To support the Phoenix Medical Campus (PMC), Chapter 330 appropriates \$6 million from the General Fund to AHSC, as well as \$1 million from the General Fund to create the Arizona State University (ASU) Department of Biomedical Informatics. Of the \$7 million appropriation for the new campus, Chapter 330 provided only \$3.5 million on July 1, 2005. The remaining \$3.5 million will become available upon Committee review of the PMC plans, but no later than October 5, 2005.

At its July 2005 meeting, the Committee received an initial report on PMC and generated preliminary questions. Pursuant to Chapter 330, the Arizona Board of Regents (ABOR) submitted for Committee review detailed operational and capital plans for PMC, including 20-year budget projections, on September 1. ABOR also submitted answers to the preliminary questions on September 7. *(To receive additional copies of these submissions, please contact JLBC Staff.)*

The Joint JLBC/JCCR Subcommittee on the Phoenix Medical Campus deliberated on those reports during its September 15 meeting and forwarded them to the full Committee with the caution that several key questions remain unanswered and the recommendation of a provision that review does not constitute endorsement of any monies for PMC beyond \$7 million. JLBC Staff sent a list of key questions to the university presidents on September 16. *(Please see Attachment A.)*

The highlights of the current PMC plan are as follows:

- Chapter 330 limited PMC to one class of 24 students, at an annual operating expense of \$7 million. In FY 2006, UA will use \$2.9 million to purchase equipment, \$1.9 million to hire PMC faculty, and \$1.2 million to fund staff and operational expenses, while ASU will use the remaining \$1 million to hire faculty and staff for its Department of Biomedical Informatics. UA budgeted faculty and staff salaries for a full year, although all personnel were not in place at the beginning of FY 2006. If the FY 2007 appropriation remains at \$7 million,

(Continued)



\$1 million would finance lease costs, \$3.3 million would pay PMC faculty salaries, \$1.4 million would fund PMC staff salaries, \$0.3 million would cover general operating expenditures, and \$1 million would support the Bioinformatics Department.

- The first class will begin in fall 2007, housed in 90,000 square feet of 3 renovated buildings on a 4.8 acre campus. UA will finance the \$19 million renovations through 30 years of \$1.5 million lease payments, of which the General Fund appropriation will pay \$1.0 million annually.
- The universities continue to hope for legislative support to expand PMC, explaining that private support would not precede state support. In FY 2007, UA does not anticipate requesting a General Fund appropriation greater than \$6 million for PMC, but ASU plans to request \$2 million for its Bioinformatics Department, for a total of \$8 million. By FY 2009, the universities propose housing 128 medical students, 204 science graduate students, and 30 bioinformatics students at a General Fund cost of \$15.5 million. By FY 2025, the universities plan for 680 medical students, 1,660 science students, and 140 bioinformatics students at a General Fund cost of \$49 million.
- In the last year of Level I and every year thereafter, science graduate students supporting the PMC research mission would outnumber medical students.
- PMC growth would eventually require construction of 10 new structures, of at least 1.2 million square feet, costing over \$460 million. The universities have not identified the land or funding sources for many of these projects.
- A national healthcare consulting firm states that the most likely growth scenario for PMC could provide \$15.4 million in new state revenues and 6,400 new jobs by FY 2010 and \$44.1 million in new state revenues and 14,600 new jobs by FY 2025. JLBC Staff has not had sufficient opportunity to analyze these results.
- If a physician shortage exists or will exist in Arizona, it is most likely to affect rural areas. The correlation between increases in medical school graduates and increases in Arizona physicians, especially in rural areas, is unclear and merits further study.
- When Arizona medical school graduates choose to practice in-state, residencies must be available for them. Of currently practicing Arizona physicians, 30% completed residencies here, suggesting a need to increase positions, which has not occurred substantially in over a decade. However, because the state currently has around 1,100 residency positions, UA believes in-state graduates would replace out-of-state graduates in Arizona residency positions.
- According to a UA consultant, PMC would likely require an on-site hospital to reach excellence. Whether or not UA chooses to construct this hospital, the consultant believes existing Phoenix hospitals would probably perceive continuing growth of PMC as a threat, would lobby against it, and would not provide opportunities for its students.

## **Recommendations**

The Committee has, at least, the following options:

- 1) A favorable review, with the provision that this does not constitute endorsement of any level of General Fund appropriations for the Phoenix Medical Campus.
- 2) An unfavorable review. However, given that Laws 2005, Chapter 330 provides the Committee authority for only review, UA and ASU will still receive the remainder of their FY 2006 PMC appropriation on October 5.

## **PMC Justification**

### *Physician Shortage*

UA claims that a physician shortage exists in Arizona and that PMC can alleviate some of this shortage. Various industry experts are predicting nationwide physician shortages, although such estimates have proven highly unreliable in the past. However, medical industry trends, including an aging overall population, an aging population

(Continued)

of physicians (44% of Arizona physicians are over 50 years old), growing demand for healthcare beyond life-sustenance as a lifestyle-enhancing product, an increase in lifestyle-related illnesses (such as diabetes and heart disease), and an increase in the number of treatable diseases, may well point to future physician shortages. If such shortages are on the horizon, physician training requires a 5 to 13-year lead time, depending on specialization.

According to a physician workforce study, conducted primarily by the ASU W.P. Carey School of Business, Arizona has 207 physicians per 100,000 people, compared to 283 nationally. This comparison may not be straightforward, as population characteristics and medical productivity vary the needs for physicians in different areas. More importantly, while Maricopa County, at 220, and Pima County, at 276, are closer to the national average, 6 rural counties have ratios lower than 100 and 5 more have ratios lower than 200, with Apache County possessing only 48 physicians per 100,000 people.

Historically, 92% of UA medical graduates enter practice. The next largest employment category is government, which claims 5% of graduates. Past trends indicate that fewer than 1% of graduates would enter academia. In the past 5 years, 42% of UA medical graduates chose residencies in primary care. However, because medical graduates choose their specialty only through their residency, UA has little influence on these decisions.

UA does have 3 programs in place to encourage practice in rural areas. The Arizona Area Health Education Centers program has earned national recognition for recruiting students from underserved communities. Additionally, the Rural Health Professions Program currently sends 15 students per Tucson class to annual summer practica at one of 34 rural sites. Furthermore, UA plans a telemedicine supplemental curriculum for PMC, providing new clinical experiences through video conferencing at over 130 clinics in a wide variety of settings around the state.

The correlation between medical school growth and physician ratios is less clear. The state relies heavily on attracting physicians from elsewhere. Among the state's allopathic physicians, 89% graduated from medical schools outside the state, including 24% from outside the country. While the Board of Medical Student Loans has programs trading financial aid for practice in underserved areas, no other contractual arrangements exist to keep Arizona medical students in the state upon graduation. UA is willing to explore such arrangements if asked.

### *Residencies*

Without increases in residency positions, PMC graduates would have few links to in-state practice. Residency location is somewhat more correlated with practice location, as 30% of all Arizona physicians completed their residencies here. Furthermore, nearly half of all state physicians cited professional opportunities as the primary reason they chose to practice here. Of UA graduates in the past 5 years, 46% chose residencies in the state.

For per capita residency positions, UA reports that Arizona ranks in the bottom 5<sup>th</sup> of states. The number of Arizona residency positions increased from 1,010 in 1992 to 1,076 in 2004, an increase of 6.5%. However, the number of practicing physicians in the state increased more than 50%. Arizona recently received an additional increase of 25 federally-funded residency positions. Therefore, assuming Arizona did not lose any residency programs since 2004, the state acquired 91 new residency positions in the past 13 years, or 7 new positions annually. If this trend continues, UA medical graduate growth, from 24 in spring 2011 to 150 in spring 2018, would quickly outstrip the state's total residency position growth. However, UA believes these patterns would lead to the replacement of out-of-state graduates in Arizona residency positions with in-state graduates. JLBC Staff has requested that UA provide additional analysis of anticipated in-state annual medical school graduates versus anticipated in-state annual residency openings.

UA indicates that residency training costs around \$75,000 per doctor per year. Federal medical agencies do not have sufficient monies to increase the total number of residency positions they fund and lag in correcting their state allocations for population movements. Federal and state medical agencies use an application process to allocate funding for residency positions to the state's teaching hospitals, of which Maricopa County has 9. Additionally, hospitals and other private entities have been unwilling or unable to fund growth in state residency positions. UA states it is willing to explore new funding methods for residencies.

(Continued)

## Economic Development

According to a 2000 report by Tripp Umbach, a national healthcare consulting firm, utilizing an economic impact database of the nation's 126 medical schools, biosciences accounted for 57% of total university research dollars, but 44% of those in Arizona. The National Institutes of Health (NIH) is one of the largest sources of academic health center funding. Half of all NIH grants go to academic health centers, and of those, the top 50 centers receive 81% of funds. Since larger institutions have more resources and more opportunities for research collaboration, academic health center rankings depend largely on an institution's size. UA currently ranks 55<sup>th</sup> in NIH funding, although some specialties are more highly ranked.

The healthcare and life sciences sectors comprise 13% of the national economy. Tripp Umbach conducted an economic impact study for the PMC to FY 2025, the results of which are summarized in *Table 1*. Economic impacts include direct business volume, re-spending from those businesses, and research and development spin-offs. Indeed, a recent joint report by several public policy consultants in surrounding states shows that research and development entities are attracted by top universities, research centers, and a collaborative culture.

| <b>Table 1</b><br><b>Phoenix Medical Campus</b><br><b>Economic Impact Study</b>  |                                     |      |      |                                    |     |     |                                  |      |      |
|--|-------------------------------------|------|------|------------------------------------|-----|-----|----------------------------------|------|------|
| Scenario*  | <u>Government Revenue (\$ in M)</u> |      |      | <u>Economic Activity (\$ in B)</u> |     |     | <u>Employment (in thousands)</u> |      |      |
|  | A                                   | B    | C    | A                                  | B   | C   | A                                | B    | C    |
| FY 2007  | 3.6                                 | 3.6  | 3.6  | 0.1                                | 0.1 | 0.1 | 1.0                              | 1.0  | 1.0  |
| FY 2010  | 6.4                                 | 15.4 | 20.2 | 0.2                                | 0.4 | 0.5 | 2.2                              | 6.4  | 7.4  |
| FY 2015  | 10.6                                | 23.7 | 52.2 | 0.2                                | 0.6 | 1.4 | 3.4                              | 9.6  | 16.4 |
| FY 2025  | 25.6                                | 44.1 | 84.6 | 0.6                                | 1.0 | 2.1 | 6.8                              | 14.6 | 24.0 |
| * Scenario A involves PMC, the ASU Bioinformatics Department, and TGen. Scenario B adds research and outpatient functions. Scenario C adds a hospital. |                                     |      |      |                                    |     |     |                                  |      |      |

Of the scenarios in *Table 1*, the current UA plan most resembles Scenario B. This circumstance could lead to \$15.4 million in new state revenues and 6,400 new jobs by FY 2010, as well as \$44.1 million in new state revenues and 14,600 new jobs by FY 2025. JLBC Staff has not had sufficient opportunity to analyze these results. Due to the face-to-face nature of medicine, any health jobs created in Arizona would be difficult to outsource overseas, or even to other states.

## Location

UA believes any new medical campus should be located in Phoenix because it is the largest city in the country without an academic health center. PMC would have an immediate impact on Phoenix physician numbers through faculty recruitment, especially research and clinical faculty. In turn, the residents of Maricopa County would have better access to clinical trials.

Furthermore, Phoenix already possesses a growing biomedical community. UA has existing biomedical partnerships with the Translational Genomics Research Institute (TGen), the ASU Biodesign Institute, all the area's teaching and research hospitals, the City of Phoenix, and the Flinn Foundation. Collaboration between these institutions is an essential component of biomedical economic development. UA states that PMC would develop a unique curriculum to take advantage of these area-specific opportunities.

## Class Size

The space at PUHS has limited initial class size to 24 students. However, for the fall 2005 Tucson class, UA believes it rejected around 50 applicants likely to be accepted given additional space. UA also states that it has based its class sizes in outlying years, up to a class size of 150 students, (*see Table 2 below*) on population growth and demand projections. It is uncertain how the opening of private medical schools in the area, at least 1 of which is in process, would affect this demand. Meanwhile, ASU derived the sizes of its biomedical informatics classes from the experiences of similar departments at other institutions.

(Continued)

## PMC Proposed Growth

The Legislature, in Chapter 330, stated, “The Phoenix Medical Campus shall accommodate 24 first year medical students in instruction. The Phoenix Medical Campus shall continue to accommodate those 24 students through the remaining years of their instruction and clinical rotations.” (Section 13.D) The Act also stated, “It is the intent of the Legislature that no more than \$7,000,000 from the state General Fund be appropriated for the Phoenix Medical Campus in any fiscal year.” (Section 13.G)

However, UA continues to envision PMC expanding annually, through two levels. In Level I, enrollment and funding would grow, from FY 2007 to FY 2009, to fill all the space available at PUHS. This first level would eventually accommodate 128 medical students, 204 science graduate students, and 30 bioinformatics students.

Science students would enroll through existing UA graduate programs in various specialties of biology, biochemistry, anatomy, physiology, genetics, and medicine, but would choose classes in Phoenix. Level I would annually graduate 24 doctors at a General Fund expense of \$15.5 million, with the first class graduating in FY 2011.

Level II would begin in FY 2010, with 192 medical students, 346 science graduate students, and 70 bioinformatics students at a General Fund expense of \$27.5 million. It would grow to serving 680 medical students, 1,660 science students, and 140 bioinformatics students in FY 2025 at a General Fund cost of \$49 million. By 2025, PMC would graduate 150 doctors per year.

Table 2 summarizes PMC proposed growth by students and General Fund operating expenses.

| <u>Fiscal Year</u> | <u>University of Arizona</u> |                                       |                         | <u>Arizona State University</u> |                  |             | <u>Total</u>  |                 |
|--------------------|------------------------------|---------------------------------------|-------------------------|---------------------------------|------------------|-------------|---------------|-----------------|
|                    | <u>GF (M)</u>                | <u>Medical Students</u> <sup>1/</sup> | <u>Science Students</u> | <u>GF (M)</u>                   | <u>Undergrad</u> | <u>Grad</u> | <u>GF (M)</u> | <u>Students</u> |
| <i>Development</i> |                              |                                       |                         |                                 |                  |             |               |                 |
| 2006               | \$ 6.0                       | 0                                     | 0                       | \$ 1.0                          | 0                | 0           | \$ 7.0        | 0               |
| <i>Level I</i>     |                              |                                       |                         |                                 |                  |             |               |                 |
| 2007               | 6.0                          | 80                                    | 0                       | 2.0                             | 0                | 10          | 8.0           | 90              |
| 2008               | 8.5                          | 104                                   | 72                      | 3.0                             | 0                | 20          | 11.5          | 196             |
| 2009               | 12.0                         | 128                                   | 204                     | 3.5                             | 0                | 30          | 15.5          | 362             |
| <i>Level II</i>    |                              |                                       |                         |                                 |                  |             |               |                 |
| 2010               | 23.5                         | 192                                   | 346                     | 4.0                             | 20               | 50          | 27.5          | 608             |
| 2011               | 21.1                         | 272                                   | 494                     | 4.0                             | 30               | 65          | 25.1          | 861             |
| 2012               | 24.1                         | 352                                   | 642                     | 4.0                             | 35               | 80          | 28.1          | 1,109           |
| 2013               | 25.9                         | 456                                   | 790                     | 4.0                             | 40               | 100         | 29.9          | 1,386           |
| 2014               | 26.0                         | 536                                   | 938                     | 4.0                             | 40               | 100         | 30.0          | 1,614           |
| 2015               | 33.6                         | 606                                   | 1,094                   | 4.0                             | 40               | 100         | 37.6          | 1,840           |
| 2025               | 45.0                         | 680                                   | 1,660                   | 4.0                             | 40               | 100         | 49.0          | 2,480           |

<sup>1/</sup> Medical students include 80 per year who complete their lower-division courses in Tucson, but choose clinical rotations in Phoenix.

(Continued)

Meanwhile, *Table 3* summarizes PMC proposed growth in FTE Positions and other university funds. Level I would, by FY 2009, employ 72 faculty and 131 staff. Appropriated tuition collections, locally-retained tuition, and non-appropriated funds such as grants and donations would contribute \$21.3 million to the PMC budget. For the purposes of planning, UA assumes it would raise PMC tuition 5% annually. Level II would begin in FY 2010, with 175 faculty and 465 staff, as well as other funds expenditures of \$60 million. It would grow to employing 568 faculty and 2,077 staff, with an other funds budget of \$185.5 million by FY 2025.

| <u>Fiscal Year</u> | <u>University of Arizona</u> |                    |                  | <u>Arizona State University</u> |                    |                  | <u>Total</u>  |            |
|--------------------|------------------------------|--------------------|------------------|---------------------------------|--------------------|------------------|---------------|------------|
|                    | <u>UF (M)</u>                | <u>Faculty FTE</u> | <u>Staff FTE</u> | <u>UF (M) <sup>2/</sup></u>     | <u>Faculty FTE</u> | <u>Staff FTE</u> | <u>UF (M)</u> | <u>FTE</u> |
| <i>Development</i> |                              |                    |                  |                                 |                    |                  |               |            |
| 2006               | \$ 2.6                       | 10                 | 29               | \$ 0.5                          | 2                  | 2                | \$ 3.1        | 43         |
| <i>Level I</i>     |                              |                    |                  |                                 |                    |                  |               |            |
| 2007               | 8.5                          | 22                 | 64               | 0.9                             | 4                  | 6                | 9.4           | 96         |
| 2008               | 12.6                         | 44                 | 93               | 1.5                             | 8                  | 11               | 14.1          | 156        |
| 2009               | 18.0                         | 60                 | 118              | 3.3                             | 12                 | 13               | 21.3          | 203        |
| <i>Level II</i>    |                              |                    |                  |                                 |                    |                  |               |            |
| 2010               | 54.7                         | 161                | 455              | 5.3                             | 14                 | 13               | 60.0          | 643        |
| 2011               | 69.1                         | 212                | 597              | 6.7                             | 16                 | 15               | 75.8          | 840        |
| 2012               | 86.7                         | 263                | 742              | 7.5                             | 16                 | 15               | 94.2          | 1,036      |
| 2013               | 94.5                         | 311                | 881              | 8.0                             | 16                 | 15               | 102.5         | 1,223      |
| 2014               | 121.6                        | 361                | 1,020            | 8.0                             | 16                 | 15               | 129.6         | 1,412      |
| 2015               | 135.3                        | 415                | 1,179            | 8.0                             | 16                 | 15               | 143.3         | 1,625      |
| 2025               | 173.5                        | 552                | 2,062            | 12.0                            | 16                 | 15               | 185.5         | 2,645      |

<sup>1/</sup> University funds include appropriated tuition collections, locally-retained tuition, and non-appropriated funds.

<sup>2/</sup> Excludes \$2-3 million in private gifts expected between FY 2006 and FY 2010.

The general trend of these budgets over time reflects the realities of starting a new program. In initial years, PMC will be highly dependent upon General Fund appropriations. Administrative and fixed costs would be relatively high. In time, PMC would gain primary support from external sources, especially research grants. Faculty and operational expenses would outstrip administrative and fixed costs.

These distributions are similar to those at the Tucson campus of the UA College of Medicine, which graduates 110 doctors per year for an annual General Fund appropriation of around \$44 million. JLBC Staff has requested a more detailed budget of the Tucson campus in order to conduct a deeper analysis of the PMC projected expenses.

If the Legislature does not provide the General Funding proposed in *Table 2*, UA has no contingency plan beyond slowing the development of PMC. The university states it is unlikely that private entities would invest in a project where the state was not willing to invest. Additionally, UA explains that public institutions seldom receive private funding for operational expenses.

(Continued)

**Table 4**

**Phoenix Medical Campus  
Proposed Construction Projects**

| <u>Project</u>                     | <u>Cost (M)</u> | <u>Sq Ft</u>     | <u>Cost/Sq Ft</u> | <u>Start</u> | <u>Description</u>  |
|------------------------------------|-----------------|------------------|-------------------|--------------|---|
| <i>Level 1</i>                     |                 |                  |                   |              |   |
| PUHS Renovation                    | \$ 19.2         | 89,200           | \$ 215            | Apr 2005     | 3 buildings of 3 stories each; interactive classrooms, exam rooms, student services, student and faculty offices, conference center; City of Phoenix will retain property ownership |
| Arizona Biomedical Collaborative 1 | 27.2            | 85,600           | 318               | Nov 2005     | 4 story research facility with wet and dry flexible labs, occupied 60% by UA and 40% by ASU; universities would lease-purchase underlying land                                      |
| <i>Level 2</i>                     |                 |                  |                   |              |   |
| New Educational Facility           | 89.8            | 310,000          | 290               | Jan 2008     | Classrooms, laboratories, student services, business services   |
| Arizona Biomedical Collaborative 2 | 73.0            | 160,000          | 456               | ?            |   |
| Imaging Laboratory                 | 15.0            | 15,000           | 1,000             | ?            |   |
| New Basic Sciences Building        | 153.6           | 365,000          | 421               | Post 2010    | Laboratories, animal care facilities  |
| New Clinical Sciences Building     | 48.2            | 145,000          | 332               | Post 2010    | Clinical laboratories, conference space   |
| New Clinical Outpatient Facility   | 39.0            | 115,000          | 340               | Post 2010    | Patient facilities, diagnostic laboratories   |
| Loading Dock                       | 7.8             | N/A              | N/A               | ?            |   |
| Underground Infrastructure         | 10.0?           | N/A              | N/A               | ?            |   |
| Parking Structure                  |                 |                  |                   |              | No information provided   |
| <b>TOTAL</b>                       | <b>\$482.8</b>  | <b>1,284,800</b> | <b>\$368</b>      |              |   |

Table 4 summarizes the construction projects proposed for PMC. Level 1 requires the renovation of PUHS and a new Arizona Biomedical Collaborative Building, a total of 174,800 square feet, costing \$46.4 million. UA has already secured funding for these projects. Meanwhile, Level II would likely require 9 new structures, with at least 1.1 million square feet, costing in excess of \$430 million. At build-out, PMC would have similar square footage to the Tucson medical campus. The universities have not identified the land or funding sources for many of these projects.

**Development Phase (FY 2003 – FY 2006)**

Arizona University System expenditures to date on the PMC project total \$541,000. Between FY 2003 and FY 2005, ABOR spent \$224,000 mostly for site assessments and facilities design. Meanwhile, UA spent \$310,000 in FY 2005 for project management, consulting, and the previously mentioned economic impact study. ASU spent \$7,000 in FY 2005 researching departments of biomedical informatics at other universities.

Since no classes will run in FY 2006, the initial \$7 million General Fund appropriation will finance startup expenses. Equipment, including specialized telecommunications infrastructure necessary for extension of the AHSC accreditation, will cost \$2.9 million. UA will use another \$1.9 million to hire PMC faculty and \$1.2 million for staff and operational expenses. While personnel costs will not support a PMC class larger than 24 students per year, certain startup expenses, especially telecommunications infrastructure purchases, will. The nature of these fixed costs requires the same large up-front expenditure, whether serving 1 class or 4 classes of students. Faculty and staff will pursue curriculum development and planning before students arrive. UA budgeted faculty and staff salaries for a full year, although all personnel were not in place at the beginning of FY 2006.

(Continued)

ASU will use the remaining \$1 million to hire faculty and staff for its Department of Biomedical Informatics. Additionally, UA will redeploy \$2.6 million in existing university funds for other administrative and operational costs. UA also aims to raise \$2 million in private donations during this phase.

### **Level I Operations (FY 2007 – FY 2009)**

Level I is now shorter than originally envisioned, at 3 years instead of 5. This level would involve curriculum refinement and the beginning of PMC research activity. In fall 2006 (FY 2007), 80 upper-division medical students, who completed their lower-division courses in Tucson, but chose clinical rotations in Phoenix, would relocate from their current location at 3<sup>rd</sup> Street and Indian School in Phoenix to PMC.

In fall 2007 (FY 2008), PMC would accept the first class of 24 medical and 72 science graduate students. Science students would enroll through existing UA programs in various specialties of biology, biochemistry, anatomy, physiology, genetics, and medicine, but would choose classes in Phoenix. PMC would accept another 24 medical students and 132 science students in fall 2008. ASU would offer masters and doctoral programs to up to 30 bioinformatics students and provide all medical students one bioinformatics course during Level I.

Of the FY 2007 General Fund budget, \$1 million would finance lease costs, \$3.3 million would pay PMC faculty salaries, \$1.4 million would fund PMC staff salaries, \$0.3 million would cover general operating expenditures, and \$2 million would support the ASU Department of Biomedical Informatics. By FY 2009, a proposed \$15.5 million General Fund appropriation would support a \$1.0 million lease, a \$7.3 million faculty, a \$0.8 million staff, \$2.9 million in operations, and \$3.5 million for ASU Bioinformatics. UA and ASU also plan to collectively raise \$20 million in donations during Level I.

In developing these budgets, UA assumed that research faculty would recover 1/2 their salary and benefits from grants. UA realizes this is not possible immediately, because research requires setup time, and is seeking funding through its other partners. UA would not use state funds for research staff.

### **Level I Capital**

PUHS is a 4.5-acre campus on the north side of Van Buren Street between 5<sup>th</sup> and 7<sup>th</sup> Streets in downtown Phoenix. The campus houses 3 buildings of 3 stories each, totaling 90,000 square feet. These facilities are undergoing a \$19.2 million renovation to accommodate PMC.

UA will lease PUHS back from the renovating developer for 30 years at an annual lease cost of \$1.5 million, which UA will pay with \$1.0 million from the PMC General Fund appropriation and \$0.5 million from locally retained tuition revenues. At the conclusion of the lease, the City of Phoenix will retain ownership of the buildings. JLBC Staff believes both the total renovation cost and the annual lease rate are reasonable.

However, the PUHS buildings are a very limited space. UA has indicated, if it is able to accept a second class of 24 students, it would hold gross anatomy classes elsewhere. Furthermore, PUHS cannot accommodate office needs moved from 3<sup>rd</sup> Street and Indian School.

The UA College of Pharmacy will likely open a program at the Mercado, the current site of the ASU Downtown Center, just south of PUHS. Additionally, the ASU College of Nursing will relocate to a facility at the ASU Downtown Campus to the west. (*Please see Attachment B.*) The ASU College of Nutrition will relocate to the ASU East Campus in Mesa.

UA has indicated that clinical rotations during Level I will preserve the current dispersed model, with students commuting to the 9 area teaching hospitals. UA is also contemplating a small ambulatory primary care clinic. Furthermore, a nearby hotel would provide student housing for Level I until the university constructs permanent housing.

During Level I, UA and ASU would also construct the Arizona Biomedical Collaborative Building 1, an 85,600 square foot research facility. The remaining research infrastructure appropriation from the 2 universities, set forth in Laws 2003, Chapter 267, would fund the building. Its anticipated per-square-foot expense of \$318 is cost-effective as compared to similar projects.

(Continued)

## **Level II Operations (FY 2010 onwards)**

Level II would be characterized by the growth of facilities and the PMC research enterprise. The FY 2010 entering class would consist of 64 medical students. The FY 2010 proposed General Fund budget of \$27.5 million is higher than previous estimates due to the earlier beginning of Level II. That proposal includes \$4.7 million in one-time capital funds, \$11.4 million for faculty, \$1.7 million for staff, \$1 million for the PUHS lease, \$4.7 million for other operational expenses, and \$4 million for the ASU Department of Biomedical Informatics. By FY 2010, the universities would provide \$60 million of their own funds, including \$32.3 million in new grants.

In FY 2015, PMC would accept its first class of 150 medical students. By 2025, the entire UA College of Medicine would be graduating 260 doctors per year. The universities would match the proposed PMC General Fund budget of \$49.0 million with \$185.5 million in other funds, including \$87.1 million from new grants and \$31.2 million from new partnerships. For a budget comparable to the current UA Tucson program budget, with state support of around 20%, PMC would produce 40 more medical graduates annually than the Tucson campus, thanks to economies of scale between the two locations.

As UA adds clinical faculty, it expects 15% of their salary and benefits to come from the state, even though these positions spend close to 27% of their time teaching. UA believes it can secure another 67.5% from clinical activities and the remaining 17.5% from research. UA describes these goals as “aggressive”, but successfully practices them at its Tucson medical campus. ASU Bioinformatics expansions during Level II would provide undergraduate concentrations, joint degrees with the UA College of Medicine or the ASU College of Nursing, and a certificate program for current practitioners.

## **Level II Capital**

Prior to accepting a class of 64 students, UA would need to complete construction of a new educational facility of around 310,000 square feet, likely to cost \$89.8 million. UA aims to raise half of this amount from private donors in exchange for name recognition. UA is considering requesting \$3.6 million from the General Fund to cover annual debt service for the rest of the expense. As a backup plan, UA might request assistance from the City of Phoenix. The anticipated per square foot cost of \$290 is among the highest for this type of building and would have to be more closely evaluated with the completed design.

UA has largely avoided committing to a hospital in Level II, suggesting that a dispersed model might continue to be sufficient. However, that model would require all 9 area teaching hospitals to expand their programs, something they have not done in over a decade. Furthermore, Kurt Salmon Associates, a global health care management consulting firm, which has been aiding UA in the PMC planning process, states that a full hospital is a key ingredient of the nation’s best academic health centers and their contributions to state economic development. The Association of American Medical Colleges reports academic health center hospitals contribute an average of \$43 million annually to their associated colleges of medicine.

Kurt Salmon Associates reports that the highly-competitive Phoenix hospital market poses particular challenges to the likely need for a clinical facility. The consultant believes that area hospitals are unlikely to be able to work together in some kind of co-venture at PMC and would probably lobby extensively against any one hospital, even a UA-owned specialty hospital, at PMC. According to Kurt Salmon Associates, these hospitals do not have the organization, resources, or programs to house Level II students, either for clinical rotations, research, or residencies. Even if UA largely succeeds with a dispersed model, it is probable that area hospitals would view patient treatments during research activities as a threat to their business.

## **Additional Requirements**

Chapter 330 requires ABOR to submit for Committee review, by December 31, 2005, a progress report on PMC. Thereafter, any significant changes to the operational plan must receive Committee review and any significant changes to the capital plan must receive JCCR review.

RS/SC:ss

Attachments



STATE OF ARIZONA

**Joint Legislative Budget Committee**

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DATE: September 20, 2005

TO: Representative Russell Pearce, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Amy Strauss, Fiscal Analyst

SUBJECT: Arizona Board of Regents – Review of FY 2006 Tuition Revenues

**Request**

The Arizona Board of Regents (ABOR) requests Committee review of its expenditure plan for tuition revenue amounts greater than the amounts appropriated by the Legislature. The footnotes for Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UofA) in the FY 2006 General Appropriation Act appropriate all tuition collections for operating expenditures, capital outlay, and fixed charges and mandate the Committee's review. ABOR is also reporting, for informational purposes, on the non-appropriated portion of tuition and fees.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review to the ABOR expenditure plan for tuition amounts above previously appropriated amounts.

ABOR estimates overall FY 2006 tuition collections applied to university operating budgets will reach \$30.1 million above the tuition amounts appropriated by the Legislature. The higher revenue is due primarily to increases in tuition approved by ABOR in March 2005 (see *Table 2*). The universities plan on using the additional \$30.1 million in the operating budgets to cover operating inflationary increases, unfunded enrollment from prior years, including the hiring of adjunct faculty, and academic and support planning priorities. The ABOR locally retained tuition and fee report requires no Committee action. Locally retained amounts are increasing by \$525,000, after factoring a change in the way NAU accounts for tuition waivers.

(Continued)

## Analysis

### Tuition Revenue Changes

Table 1 displays FY 2005 and FY 2006 appropriations by fund for the Arizona University System.

| <b>Table 1</b><br><b>Arizona University System</b><br><b>FY 2005 and FY 2006 Appropriations (in millions)</b> |                  |   |  |
|---|------------------|---|--|
|   | <u>FY 2005</u>   | <u>FY 2006 Before<br/>Tuition Adjustments</u> | <u>FY 2006 After<br/>Tuition Adjustments</u> |
| General Fund  | \$ 787.0         | \$ 843.1                                      | \$ 843.1                                     |
| Collections Fund  | 348.7            | 356.1   | 386.2  |
| <b>TOTAL</b>  | <b>\$1,135.7</b> | <b>\$1,199.2</b>                              | <b>\$1,229.3</b>                             |

Table 2 shows ABOR changes to resident and non-resident undergraduate tuition from FY 2005 to FY 2006.

| <b>Table 2</b><br><b>Arizona University System</b><br><b>FY 2005 to FY 2006 Undergraduate Tuition Changes</b> |                 |                |                  |                 |                     |                |                  |                 |
|---|-----------------|----------------|------------------|-----------------|---------------------|----------------|------------------|-----------------|
|   | <b>Resident</b> |                |                  |                 | <b>Non-Resident</b> |                |                  |                 |
|   | <u>FY 2005</u>  | <u>FY 2006</u> | <u>\$ Change</u> | <u>% Change</u> | <u>FY 2005</u>      | <u>FY 2006</u> | <u>\$ Change</u> | <u>% Change</u> |
| ASU-Main  | \$4,062         | \$4,404        | \$342            | 8.4%            | \$12,917            | \$15,093       | \$2,176          | 16.9%           |
| ASU-East/West   | 4,062           | 4,343          | 281              | 6.9%            | 12,917              | 15,092         | 2,175            | 16.8%           |
| NAU   | 4,072           | 4,393          | 321              | 7.9%            | 12,592              | 13,023         | 431              | 3.4%            |
| UofA  | 4,089           | 4,487          | 400              | 9.8%            | 13,067              | 13,671         | 604              | 4.6%            |

Table 3 presents FY 2006 appropriations, estimates of the ABOR FY 2006 All Funds Operating Budget Report, and resulting additional tuition revenues by campus.

| <b>Table 3</b><br><b>Arizona University System</b><br><b>FY 2006 Appropriations and Additional Tuition Revenues by Campus</b> |                                  |  |                           |
|---|----------------------------------|--|---------------------------|
| <u>Campus</u>   | <u>FY 2006<br/>Appropriation</u> | <u>FY 2006 All Funds<br/>Operating Budget Report</u> | <u>Additional Tuition</u> |
| ASU-Main  | \$171,622,500                    | \$192,239,200  | \$20,616,700              |
| ASU-East  | 11,305,100                       | 12,961,400   | 1,656,300                 |
| ASU-West  | 17,335,700                       | 18,447,300   | 1,111,600                 |
| NAU   | 36,190,300                       | 39,543,900   | 3,353,600                 |
| UofA-Main   | 107,128,500                      | 108,131,300  | 1,002,800                 |
| UofA-Health Sciences Center   | 12,546,700                       | 14,903,400   | 2,356,700                 |
| <b>TOTAL</b>  | <b>\$356,128,800</b>             | <b>\$386,226,500</b>                                 | <b>\$30,097,700</b>       |

Table 4 provides some information on the uses of additional tuition revenues by campus. Attached, ABOR has provided further detail, including an expenditure breakdown.

(Continued)

| <b>Table 4</b><br><b>Arizona University System</b><br><b>Uses of Additional Tuition Revenues by Campus</b> |   |
|--|---|
| ASU–Main   | University new start ups and initiatives account for \$3 million of the tuition revenues, followed by health insurance premium costs at \$2.1 million, and an increase in the cost of utilities at \$1.4 million. Support of the downtown Phoenix Campus and University College is around \$1.1 million. Additionally, about \$900,000 of funding is set aside for new facilities support, and the nursing programs. The remaining monies will go towards student enrollment growth, including growing operating costs, and investment in new programs and activities. There is also program support for transition and parent programs, honors college enhancements, K-12 partnerships and outreach, and new facilities support. |
| ASU–East   | Additional faculty for student enrollment growth account for \$800,000 of the tuition revenues, followed by \$500,000 for faculty associates to teach 140 course selections. Additionally, \$100,000 is set aside for health insurance premiums, and \$200,000 for new facilities and maintenance support. The remaining monies go to the restoration of vacant university positions.   |
| ASU–West   | The restoration of vacant university positions account for \$400,000 of the tuition revenues, as well as \$100,000 for increased utility costs, and business special program fees that support students. \$500,000 is also set aside to support 138 additional class sections to deal with student enrollment increases.  |
| NAU  | A merit/market increase for faculty and staff account for \$2.2 million of the tuition revenues, followed by \$200,000 for custodial support for new building facilities. \$600,000 is set aside to expand distance learning, and \$150,000 for teacher education accreditation and \$250,000 for undergraduate support.  |
| UofA–All   | The support of the College of Medicine in hiring faculty and staff accounts for \$1.2 million of the tuition revenues, the remaining \$1.1 million is set aside to increase funding to support programs and enrollment growth.  |

#### Locally Retained Tuition and Fees Report

ABOR reports that NAU has changed the way it manages financial aid, starting in FY 2005. Rather than awarding tuition waivers, NAU has chosen to offer cash scholarships. Such monetary grants are more attractive to potential students than waivers. Additionally, national financial aid statistics include cash scholarships, but not tuition waivers, in ranking universities around the country. Therefore, the change will reflect positively on the university. ASU and UofA adopted this accounting change last year. This modification does not alter the universities' accounting records. Based on amounts reported in the FY 2006 university requests, cash scholarships in FY 2006 totaled \$17.8 million for NAU.

Systemwide, locally retained tuition and fees increased \$18.3 million above originally budgeted amounts. Of the \$18.3 million, \$17.8 million was allocated for new cash waivers at NAU and \$525,000 was allocated for university programs at ASU. *Table 5* shows the allocation of retained tuition and fees in ABOR's report.

(Continued)

| <b>Table 5</b>                            |                         |                        |                       |
|---|-------------------------|------------------------|-----------------------|
| <b>Arizona University System</b>          |                         |                        |                       |
| <b>Locally Retained Tuition and Feeds</b> |                         |                        |                       |
|   | <u>Original FY 2006</u> | <u>Revised FY 2006</u> | <u>FY 2006 Change</u> |
| Programs                                  | \$27,449,700            | \$27,974,700           | \$525,000             |
| Financial Aid                             | 153,875,200             | 153,870,200            | --                    |
| New Cash Waivers                          | --                      | 17,757,000             | 17,757,000            |
| Plant Fund                                | 8,835,900               | 5,835,900              | --                    |
| Debt Service                              | 6,130,700               | 63,130,700             | --                    |
| Other                                     | <u>18,948,800</u>       | <u>18,948,800</u>      | <u>--</u>             |
| <b>Total Retention</b>                    | <b>\$269,240,300</b>    | <b>\$287,522,300</b>   | <b>\$18,282,000</b>   |

RS/AS:ss

STATE OF ARIZONA

**Joint Legislative Budget Committee**

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STEPHEN TULLY

DATE: September 20, 2005

TO: Representative Russell Pearce, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Arizona Department of Economic Security – Review of Arizona Specific Child  
Protective Services Caseloads

**Request**

Laws 2003, 2<sup>nd</sup> Special Session, Chapter 6 instructed the Department of Economic Security (DES) to develop and adopt Arizona specific caseload standards for Child Protective Services (CPS) and submit them to the Joint Committee on Children and Family Services (JCCFS) by July 1, 2004. As the department failed to meet this deadline, Laws 2005, Chapter 286 directed DES to submit those standards to the Joint Legislative Budget Committee for review by September 1, 2005. The footnote states that if the standards were submitted by that date, “upon the review of the Joint Legislative Budget Committee, but no later than October 1, 2005, an additional \$1,388,400 from the state General Fund and \$2,999,200 from the Federal Temporary Assistance for Needy Families Block Grant and 86.7 Full-Time Equivalent Positions shall be appropriated to the operating lump sum for additional caseworker staff,” which represents half of the new funding appropriated for CPS case managers and staff for FY 2006.

**Recommendation**

The Committee has at least the following options:

1. A favorable review with the provision that it does not constitute an endorsement of additional funding required to achieve the proposed staffing levels. Overall, the DES proposal is comparable to the Child Welfare League of America’s (CWL) national standards. These standards, however, reflect DES’s best estimate of the time required to complete its Arizona-specific responsibilities.
2. An unfavorable review. The proposed standards simply reflect current workloads and procedures. They do not attempt to address what is the most appropriate level of staffing, and would serve to validate any inefficiencies currently in the system.

In addition, the JLBC Staff recommends the following additional provisions:

- DES reevaluate the standards in one year and report back to the Committee by September 1, 2006. The report should include any recommendations for changes to the standards as well as data to support those changes.

(Continued)

- DES and the Attorney General examine and resolve their differences in the reporting of the number of children awaiting placement, and submit their joint findings to the Committee by December 31, 2005.
- The statutorily required semi-annual Financial and Program Accountability Report include the following measures:
  - The number of children in licensed foster care, kinship care, or other family-style placements.
  - The number of children in group home, shelters, residential centers or other congregate care settings.
  - The number of children in shelter care more than 21 days and the average number of days in care for these children.
  - The number of children 0 to 3 years old in shelter care.
  - The number of children 0 to 6 years old in group homes.
  - Expenditures for services allowed under the Federal Title IV-E waiver including counseling, drug treatment, parenting classes, rent, furniture, car repairs and food expenditures.

DES has also separately submitted its semi-annual Financial and Program Accountability Report. The following are some highlights of the report covering January – June 2005:

- Investigations have remained fairly constant at about 3,200 cases per month. In-home cases have declined an average of (4)% per month to 4,516 at the end of FY 2005. Out-of-home cases have increased an average of 1% per month to 9,761.
- Case manager retention was about 80% for the second half of FY 2005. DES lost 70 case managers and another 13 were transferred or promoted within the system. These were replaced by 167 new-hires or transfers.
- Employee satisfaction remained stable with an average survey ranking of 3.4 out of 5 overall and a 4.3 for training.
- CPS complaints validated by the Office of the Ombudsman decreased from 16% in FY 2004 to 13% in the last six months of FY 2005.

## Analysis

The department submitted its case manager caseload standards on August 31, 2005. The proposed standards are 10 cases per month for investigations, 19 cases per month for families receiving in-home services, and 16 children per month in out-of-home care. *Table 1* compares these standards to the CWLA standards and to national averages.

| <b>Table 1</b>   |                 |             |                                    |                                       |
|--|-----------------|-------------|------------------------------------|---------------------------------------|
| <b>Comparison of Caseload Standards</b>  |                 |             |                                    |                                       |
|  | <u>Proposed</u> | <u>CWLA</u> | <u>FY2005 Actual</u> <sup>1/</sup> | <u>National Average</u> <sup>2/</sup> |
| Investigations   | 10              | 12          | 15                                 | 14                                    |
| In-home Services   | 19              | 17          | 32                                 | 16                                    |
| Out-of-home Services <sup>3/</sup>   | 16              | 15          | 29                                 | 23                                    |
| <sup>1/</sup> Average monthly caseload does not include unfilled positions. Filling already appropriated positions would reduce these caseloads.   |                 |             |                                    |                                       |
| <sup>2/</sup> National Average are reported by CWLA for 2002. Data represents the response of between 19 and 23 states, depending on the category. |                 |             |                                    |                                       |
| <sup>3/</sup> Out-of-home standard is number of children, whereas the other standards are number of cases.   |                 |             |                                    |                                       |

(Continued)

DES reports that these standards were developed by assessing the time required to complete each of the functions in a specific type of case. This number was then weighted to represent the percentage of cases in which the action was performed. For example, in an investigation, when a worker decides that removal is warranted, DES estimates that it requires a minimum of 180 minutes of work with an additional 45 minutes of travel and 30 minutes of data entry for a total of 255 minutes to process the removal. This activity occurs in 13.2% of investigations. Multiplying these numbers gives us a weighted average time of 34 minutes to process a removal for all investigations. Adding all the activities for an investigation, DES calculates that it takes 14.8 hours to complete an investigation. DES then calculates that the total available time in a month to spend on casework is 148 hours (which excludes vacation and sick leave, meetings, training and other administrative duties). This number is then divided by the number of hours required to complete an investigation for a total of 10 cases per month (148 hours available per month / 14.8 hours per investigation). The standards for in-home and out-of-home case management were computed in the same manner.

Laws 2003, 2<sup>nd</sup> Special Session, Chapter 6 required DES to provide a semi-annual report that includes actual caseloads for CPS workers. *Table 2* shows the number of cases and the number of cases managers required to meet the proposed standards based on the data in the semi-annual report.

| <b>Table 2</b>                             |                       |                         |                            |               |
|--|-----------------------|-------------------------|----------------------------|---------------|
| <b>CPS Staffing and Caseload Standards</b> |                       |                         |                            |               |
|  | <u>Investigations</u> | <u>In-home Services</u> | <u>Out-of-home Service</u> | <u>Total</u>  |
| FY 2005 Average Caseload                   | 3,098                 | 4,798                   | 9,197                      | <b>17,093</b> |
| Caseworkers under CWLA                     | 258                   | 283                     | 613                        | <b>1,154</b>  |
| Caseworkers under Proposed                 | 310                   | 252                     | 575                        | <b>1,137</b>  |
| Appropriated (in FY 2006)                  | --                    | --                      | --                         | <b>957</b>    |
| Difference CWLA                            | --                    | --                      | --                         | <b>(197)</b>  |
| Difference Proposed                        | --                    | --                      | --                         | <b>(180)</b>  |

Based on this information, the department would need about 180 additional case managers to meet these caseload standards. For FY 2006, the cost per case manager was just under \$76,000, which includes funding for additional support staff. Using this estimate, the total cost of 180 additional case workers would be \$13.6 million.

#### Data Concerns

There are, however, some questions as to the workload methodology. In an October 2003 report, the Auditor General suggested that DES might overcount caseload and undercount case managers. For example, DES only reports CPS specialists as case managers; however, the Auditor General reports that Human Services specialists and CPS program specialists also carry cases. Case management is listed as part of their job specifications. The Auditor General also reported that in interviews with these positions, the incumbents stated that they understood case management to be an expected part of their job. Adding all case carrying positions could significantly reduce the difference between the current status and the proposed caseload standards. However, DES does not believe those positions should carry cases. Human Service specialists, for example, have generally have less training and a more limited educational background that affect their qualifications to carry active cases.

A second observation by the Auditor General is that the number of cases may include closed cases which have not been closed on the computer tracking system. The report specifically cites 1 case where there had been no documented activity in 4 years. In order to eliminate these extreme cases, DES only counts

(Continued)

cases on the system which have documented activity within the previous 60 days. While this does improve the accuracy of the count, it still creates the potential to count cases that have been closed for 2 months but are still open on the tracking system.

There is also some question as to the reliability of the data itself. The Auditor General makes the point that the tracking system does not classify each case as investigation, in-home or out-of-home. The result is a potential for not properly counting cases as they transfer, for example, from investigation to in-home, which would increase the number of allowable cases from 10 to 19.

There are also data issues between DES and the Attorney General. For each quarter in FY 2005, the Attorney General reports the total number of children awaiting placement 15% to 20% higher than the total reported by DES. For example, in December 2004 the Attorney General's reports shows a total of 10,448 children awaiting placement, whereas DES reported a total of 8,912. In discussion with both agencies, there is a consensus that these numbers should match; however, the reason for the large discrepancy is unknown.

Another critique of the analysis is that DES simply took the current procedures and quantified the time to complete them. There is no analysis of the effectiveness of the procedures. For example, the department reports that when timing the prescribed "planning" activity in out-of-home case management it took 240 minutes to complete. There is no discussion of whether 240 minutes is the right amount of time. By accepting these standards, the department validates the current procedures even if they might be inefficient.

Further, the fact that these caseload standards are lower than the actual reported caseloads shows that actual practices deviate from the prescribed methods. The department calculated the time required to complete each task as currently required; however, case managers are not taking the full time to complete those tasks, either because of efficiency or because they are not completing the required tasks. This finding is also documented by the Auditor General's report. For example, the data entry portion of the caseloads were determined by timing caseworkers' entry time in the CHILDS system; however, the Auditor General reported that this data entry is often not completed as required. While these caseloads shed some light on staff needs under current conditions, they do not address the larger picture of what the department should be doing to improve efficiency.

#### Semi-annual Report

Finally, in addition to the caseload standards, DES has separately submitted its semi-annual financial and program accountability report for CPS. In the second half of FY 2005, the number of investigations remained fairly constant at about 3,200 per month versus a total year average of 3,098. In-home services cases declined over that same period from 5,486 in January to 4,516 in June or an average of about (4)% per month. Out-of home placements, however, increased from 9,148 in January to 9,761 in June at an average of just over 1% per month.

Case manager retention for the second half of FY 2005 was 80.2%, with 83 managers leaving their current assignments (13 of which transferred districts or were promoted within the division). Over the same period, DES hired, promoted or transferred-in 167 new managers. Districts 3 and 4 had the lowest retention rates with 65% and 25%, respectively. (These districts encompass the northeastern and southeastern counties.) Employee satisfaction surveys report that, the average employee response is about 3.4 on a scale of 1 to 5 for FY 2005, which is consistent with previous reports. Satisfaction with training is reported at 4.3.

DES also reports that only 0.18% of CPS original dependency cases were denied or dismissed by the courts. The percent of Office of Administrative Hearings (OAH) cases where CPS findings are affirmed

(Continued)



has increased from 79% in FY 2004 to 89.4% in the second half of FY 2005. The report also shows that the percent of CPS complaints validated by the Office of the Ombudsman decreased from 16% in FY 2004 to just over 13% in the last six months of FY 2005.

DES recently published a report entitled *Strengthening Families: A Blueprint for Realigning Arizona's Child Welfare System*. According to the report, DES has set the following goals to be completed by June 2006:

- A 5% reduction in children in out-of-home care
- A 10% reduction in children in congregate care (group homes, shelters and residential facilities)
- Eliminate the placement of children ages 0-6 in group homes
- Eliminate the placement of children ages 0-3 in shelter care
- Reduce the length of stay in shelter care to no more than 21 days

Achieving these goals would move cases from the higher cost and caseload ratio out-of-home placements to in-home services, thus reducing the need for more case managers. In order to track these goals, JLBC Staff recommends that the measures listed in the Recommendation section be added to the semi-annual report.

RS/EJ:ym

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STEPHEN TULLY

DATE: September 20, 2005

TO: Representative Russell Pearce, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Fiscal Analyst

SUBJECT: JLBC Staff – Consider Approval of Index for Construction Costs

**Request**

A.R.S. § 15-2041D.3c requires that the cost-per-square-foot factors used in the School Facilities Board (SFB) building renewal and new school construction financing “shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee as necessary but not less than once each year.” The School Facilities Board staff recommends that the Committee approve an adjustment for FY 2006 based on the Marshall Valuation Service (MVS) construction cost index.

The SFB staff also asks the Committee to consider an additional retroactive adjustment of up to 9.6% over the next 2 years.

**Summary**

The Committee has at least 3 options:

- 1) Approve an increase in the cost-per-square-foot factors based on the U.S. Department of Commerce: Bureau of Economic Analysis (BEA) index for “State and Local Government Investment – Structures.” Approving this 5.8% adjustment may cost an estimated \$652,500 for new construction in FY 2006 and an additional \$12.4 million once fully implemented over the next 4 years. In addition, this adjustment would increase the building renewal formula by \$7.5 million. Since its September 2003 meeting, the Committee has approved an adjustment based on this index.
- 2) Approve an increase in the cost-per-square-foot factors based on the MVS construction cost index for “Class C – Masonry Bearing Walls.” Approving this 6.4% adjustment may cost an estimated \$720,000 for new construction in FY 2006 and an additional \$13.7 million once fully implemented over the next 4 years. In addition, this adjustment would increase the building renewal formula by \$8.3 million. Prior to the August 2002 meeting the Committee based the adjustment on this index.

(Continued)

- 3) Approve a 6.4% increase in the cost-per-square-foot factors based on the MVS construction cost index in the current year, plus a retroactive adjustment of 9.6% to be implemented over the next 2 years. JLBC staff assumes that half of the retroactive adjustment, or 4.8%, would be implemented in FY 2006, while the other 4.8% would be implemented in FY 2007. Approving this 11.2% (6.4% + 4.8%) adjustment may cost an estimated \$1.3 million for new construction in FY 2006 and an additional \$23.9 million once fully implemented over the next 4 years. This adjustment would increase the building renewal formula by \$14.6 million.

## **Analysis**

This section includes background information regarding the SFB inflation index, details on rising construction costs, an explanation of the options available for the current adjustment, and discussion on the SFB's guidelines for funding new school construction projects.

### Background Information

The original Students FIRST legislation (Laws 1998, Chapter 1, 5<sup>th</sup> Special Session) established funding amounts per square foot of space for new construction and building renewal (e.g., \$90 per square foot for Grades K-6). It required, however, that those amounts be adjusted periodically for inflation. (A.R.S. § 15-2041D.3c). The latter provision states that the funding amount per square foot "shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee as necessary but not less than once each year." The SFB also has statutory authority to modify a particular project cost per square foot for geographic factors or site conditions above the approved amounts.

Prior to 2002, the Committee used the MVS construction cost index for Class C structures (masonry bearing walls) for Phoenix. At the August 2002 meeting the Committee elected not to approve an adjustment in the cost-per-square-foot factors. Due to the decision not to approve an adjustment for that year, 5 school districts brought suit against the Committee, claiming the Committee had failed to perform its statutory duty under A.R.S. § 15-2041D.3c to adjust the index not less than once per year. The following year, at the September 2003 meeting, the Committee approved a 2-year adjustment. The adjustment made was based on the BEA index for "State and Local Government Investment – Structures." The Committee again approved the BEA index at the September 2004 meeting.

For building renewal, the inflation adjustment is applied to the *formula* amount. In FY 2006 the state funded \$70.0 million of the \$130.1 million building renewal formula amount. An inflationary adjustment, therefore, would increase the formula amount to at least \$137.6 million in FY 2007 prior to any other possible formula adjustments.

### Construction Costs

Construction costs are still on the rise due to increasing prices of construction inputs. Input prices that have been increasing considerably since 2003 are cement, steel, oil, labor, gypsum, fiberglass insulation, and lumber. Increasing costs of construction inputs are due to the surge in China's infrastructure building, the housing boom in the U.S., and the war in Iraq, amongst other reasons. The cost of construction materials rose as much as 15-25% in the U.S. last year as compared to 3-5% in previous years. The world price of steel increased by 87%, or by \$338 per ton, from January 2003 to January 2005.

(Continued)

As a result of these inflationary pressures, school districts in Arizona have been experiencing higher costs. For example, according to the Chandler Unified School District, they have built 2 almost identical elementary schools over the last 3 years. The first school cost \$4 million to build while the second school cost \$5.2 million, an increase of \$1.4 million, or 30%. (*See Attachment 1 for additional detail.*)

#### Options for the Current Adjustment

The JLBC Staff has identified at least 3 possible adjustments that could be considered.

##### *U.S. State and Local Structures*

The BEA index for “State and Local Government Investment – Structures” for FY 2005 is 5.8%. This index measures price changes for all U.S. state and local gross investment in structures, which includes all buildings. Unlike the MVS data, this index only measures government activity, so it may better reflect school district market conditions. This data, however, is only available nationwide. The total estimated new construction and building renewal impacts would be \$13.1 million and \$7.5 million, respectively.

##### *Phoenix Masonry Construction*

The MVS index for “Class C – Masonry Bearing Walls” structures for Phoenix for FY 2005 is 6.4%. School buildings typically fall into the Class C structure category. Class C structures are characterized by masonry or reinforced concrete construction and generally include office buildings of 3 stories or less. The MVS Class C index has a greater likelihood, as a single construction measurement, of year-to-year fluctuation. The total estimated new construction and building renewal impacts would be \$14.4 million and \$8.3 million, respectively.

##### *Phoenix Masonry Construction plus retroactive adjustment*

A third option would be the MVS index of 6.4%, plus a retroactive 2-year adjustment of 9.6%. The 9.6% retroactive adjustment would be implemented over 2 years, so the additional adjustment would be 4.8% in both FY 2006 and FY 2007. This would result in a total adjustment of 11.2% for the first year. The total estimated new construction and building renewal impacts would be \$25.2 million and \$14.6 million, respectively. In FY 2007, the 4.8% adjustment would be prior to any other adjustments the Committee would make.

The SFB staff has requested this increase to adjust for levels of construction inflation in Arizona that the board believes the national index did not adjust for in the previous 2 years. According to the SFB, the BEA adopted indexes for the previous 2 years lag the MVS index by 9.6%.

*Attachment 2*, titled “School Construction Indexes,” depicts the MVS and BEA index amounts since FY 2001.

The new construction amounts are based on SFB’s current estimate of \$225 million in project approvals for FY 2006. Based on its projected construction schedule, the SFB does not believe current new construction cost estimates should require the board to seek supplemental funding in the current year as its existing \$250 million budget would cover this cost. For building renewal, though an inflation adjustment would increase the formula cost in future years, in FY 2006 the state appropriated \$70.0 million for building renewal. Adjusting for inflation would not change the existing appropriation.

(Continued)

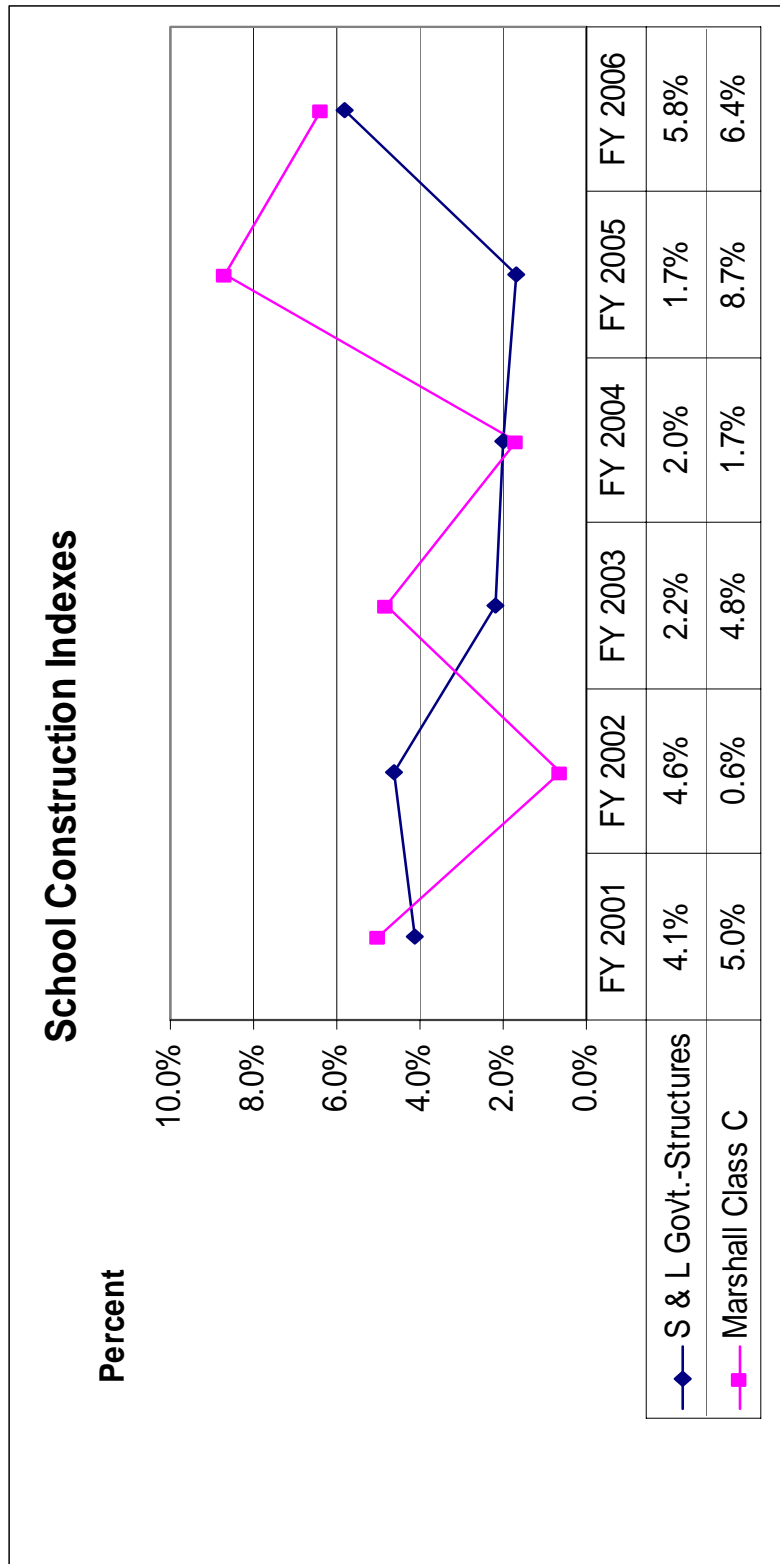
New School Construction Funding Guidelines

SFB provides new construction funding based on the product of the following statutory New School Facilities (NSF) formula:

No. of pupils      x    Sq. foot per pupil      x    Cost per sq. foot      =    Allocation amount

SFB has the authority to provide additional funding above and beyond the statutory allocation amount to a district if it cannot build a school within the NSF formula amount. A district can prove they cannot build a minimum guidelines school by demonstrating they are building the least expensive school they possibly can but are still over the formula amount. Since the enactment of Students FIRST , some of these projects have been funded above the formula with SFB monies. We have asked SFB for more detail on this, which we will provide to JLBC at the meeting.

RS/LMc:ck  
Attachments



STATE OF ARIZONA

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STEPHEN TULLY

DATE: September 12, 2005

TO: Representative Russell Pearce, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Tyler Palmer, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Consider Approval of Mileage Reimbursement for State Travel by Motor Vehicles & Report on a Tiered Rate Mileage Reimbursement System

**Request**

A.R.S. § 38-623D requires the Arizona Department of Administration (ADOA) to set the rates of reimbursement for state travel by motor vehicle, taking into consideration the amounts established by the United States Internal Revenue Service (IRS). The rates compensate state employees who use their own vehicles to travel on official state business. The statute also mandates Committee approval of any rate change.

At its December 16, 2004 meeting, the Committee adopted an increase from 34.5 cents per mile to 37.5 cents per mile. The Committee also requested that ADOA report on the establishment of a tiered rate reimbursement system for mileage driven in personal vehicles depending on the availability of state motor pool vehicles. This information was requested in reference to the tiered rate reimbursement system utilized by the federal government.

ADOA requests Committee approval for another increase in the mileage reimbursement rates, from 37.5 cents per mile to 40.5 cents per mile for motor vehicles. If the Committee approves the suggested rate, ADOA asks that the adjustment become effective immediately. The proposed rate is less than federal reimbursement level established for the remainder of calendar year 2005. In response to recent gas price increases, the Internal Revenue Service (IRS) has increased the mileage reimbursement rate from 40.5 to 48.5 cents per mile effective September 1, 2005 through December 31, 2005 (*See Attachment A*). The calendar year 2006 rate will not be determined and announced until December.

(Continued)

## **Recommendation**

The Committee has at least the following options in approving a mileage rate:

1. 40.5 cents per mile as recommended by ADOA. In January 2005, the IRS adopted a 40.5 cent rate for all of calendar year 2005. This would represent an increase of 3 cents above the current rate.
2. 48.5 cents per mile in line with recent federal decision to adjust IRS rate from 40.5 to 48.5 through the end of December. This would represent an increase of 11 cents above the current rate.
3. Retain the current 37.5 cents per mile rate.

The Committee could also approve a tiered mileage reimbursement rate. A tiered mileage reimbursement structure reimburses at a lower rate for higher mileage trips if a state vehicle is available but is not used. If the reimbursement rate of 40.5 cents per mile is approved, the rate for using a Privately Owned Vehicle (POV) instead of the state vehicle would be 30.5 cents per mile. ADOA would set tiered rates based on when it is cheaper to use a fleet vehicle than a POV depending on the estimated mileage of a trip. Due to a lack of sufficient data, potential savings from adopting a tiered rate reimbursement system cannot be estimated.

Committee approval of a reimbursement rate increase would not constitute an endorsement of additional appropriations to cover higher travel costs. Agencies may request funding increases through the regular budget process.

## **Analysis**

### Mileage Reimbursement

Annually, the federal government hires a specialized transportation consulting firm to study nationwide travel market conditions. Factors considered include the average costs of depreciation, maintenance, repairs, fuel, and insurance. On January 1, 2005, the U.S. General Services Administration (GSA) published the current travel reimbursement rates of 40.5 cents per mile for motor vehicles.

The current request of a motor vehicle rate change from 37.5 cents per mile to 40.5 cents per mile represents an 8% increase. Across state agencies, ADOA approximates that the new rates would have an annualized impact of \$66,000 on the General Fund and \$237,000 on all other appropriated and non-appropriated funds. This is the same dollar impact as the prior increase of 3 cents.

Although they are not mandated to do so, the state's public universities also use ADOA mileage reimbursement rates. Increasing the state reimbursement rate will lead to increases in reimbursements paid by the state's public universities. For the prior increase of 3 cents, Arizona State University reported its yearly travel expenditures would increase \$14,000 from all state funds, and \$33,000 from all non-appropriated funds. Northern Arizona University estimated an increase of \$33,000 from all state funds, and \$69,000 from all non-appropriated funds. The University of Arizona could not isolate mileage costs from other travel expenses.

### Tiered Rate Reimbursement Schedule

According to General Services Administration staff, the Federal Travel Regulation adopted a tier structure for POV's more than 30 years ago. The basic concept is that the federal government reimburses at a higher rate when a government vehicle is not available and a lower rate when a government-owned vehicle is available and an employee chooses not to use one. ADOA projects that its taxi fleet (short-term-use vehicles) is currently employed at only 63.5% of capacity. Theoretically, adopting a tiered reimbursement schedule would result in increased use of state-owned vehicles and a more efficient fleet system.

(Continued)



In order to generate cost savings through the implementation of a tiered rate system requires stipulations concerning which mode of transportation should be used depending on the number of miles to be driven. The stipulations would need to be based on a breakeven mile point; a breakeven mile point is the distance at which it becomes less costly to operate a state vehicle than to operate a POV. The current breakeven mile points are determined by the daily vehicle checkout rates, which are determined by vehicle costs, maintenance costs, fuel costs, insurance costs, and other costs.

ADOA concluded the following concerning the miles driven for different modes of travel, and the cost effectiveness of a tiered rate reimbursement schedule:

- State employees should use Extended Dispatch vehicles any time one is available to the agency. Extended Dispatch vehicles are vehicles that are permanently assigned to state office locations.
- State employees located within 5 miles to a state motor pool, and traveling a minimum of 68 miles (74 miles at 37.5 cent rate) should rent a state taxi. State taxi vehicles are vehicles checked out for short-term use from a state motor pool.
- State employees located outside Maricopa County and without access to an extended dispatch vehicle or state taxi vehicle, should use the state's contracted vendor (Enterprise Rent-A-Car) if the trip is greater than 100 miles (108 miles at 37.5 cent rate).

For trips driving distances greater than these breakeven mile points (note the breakeven mile point is different depending on the type of vehicle driven), the tiered reimbursement policy would benefit the state. However, for trips with distances shorter than these breakeven mile points, without a requirement concerning the miles to be driven the tiered reimbursement policy would be a detriment to the state.

Estimating the cost savings from implementing a tiered rate system is difficult because detailed information on current usage is not available, and changes in the usage of fleet versus private vehicles can not be projected.

#### Other Items of Consideration

Notwithstanding the potential cost savings, 2 unknown factors include any potential administrative costs to track and implement a tiered system and increased investment in the fleet system if a tiered structure increases the use of fleet vehicles.

RS/TP:ck

STATE OF ARIZONA

**Joint Legislative Budget Committee**

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DATE: September 28, 2005

TO: Representative Russell Pearce, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Tyler Palmer, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Review of Risk Management Deductible

**Request**

A.R.S. § 41-621(E) requires the Arizona Department of Administration (ADOA) to submit for annual review deductible amounts charged to agencies for risk management losses. ADOA requests that the Committee approve the current deductible amounts, with no changes from the previous year.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review of the request.

**Analysis**

Laws 1997, Chapter 85 provided that the ADOA Director may impose deductibles of up to \$10,000 per risk management loss on state agencies. Such deductible amounts are subject to annual review by the Joint Legislative Budget Committee (JLBC). ADOA maintains the right to waive any deductible for just cause or in the best interests of the state. To date, ADOA has not assessed any deductibles.

During FY 2005, ADOA planned to assess a deductible against the Arizona Department of Transportation (ADOT) resulting from a case related to inadequate highway maintenance. However, ADOT avoided being assessed a deductible by submitting an accepted Agency Response regarding its maintenance program.

The deductible program has three components, as described below:

(Continued)

1) Rule 14 Settlements and Judgments

ADOA will charge a \$10,000 deductible for each claim of \$250,000 or more (those claims requiring JLBC approval under Rule 14), unless the agency implements an approved plan to limit or eliminate similar future losses. ADOA helps agencies develop these plans.

2) Workers' Compensation Early Notification

ADOA requires state agencies to report workers' compensation claims within 10 days of the employee's incident notification to a supervisor or other agency representative. If an agency fails to report within 10 days, Risk Management would charge a deductible of 20% of the claim, up to \$10,000. If an agency reports 75% of all occurrences of industrial injury or illness within two days of the employee's notification to a supervisor or other agency representative, Risk Management will waive this deductible. ADOA provides extensive training to agencies on early reporting.

3) Opportunistic Loss Prevention

ADOA and each agency reach agreements on the agency's most significant opportunity for loss prevention. ADOA will assess a \$10,000 deductible for each loss of this type unless the agency implements an approved loss prevention plan. All state agencies have submitted such plans. ADOA continues to work with agencies to update and improve those plans.

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